
SENATE BILL No. 485

DIGEST OF INTRODUCED BILL

Citations Affected: IC 6-1.1.

Synopsis: Inventory taxation. Eliminates the property tax exemption for inventory used in the production of personal property shipped out of state and replaces the exemption with a property tax replacement credit. Excludes the inventory subject to the credit from the statewide deduction for inventory scheduled to take effect in 2007.

Effective: Upon passage.

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January 13, 2004, read first time and referred to Committee on Finance.

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Introduced

Second Regular Session 113th General Assembly (2004)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2003 Regular Session of the General Assembly.

SENATE BILL No. 485

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

- 1 SECTION 1. IC 6-1.1-10-29, AS AMENDED BY P.L.192-2002(ss),
2 SECTION 30, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
3 UPON PASSAGE]: Sec. 29. (a) As used in this section, "manufacturer"
4 or "processor" means a person that performs an operation or a
5 continuous series of operations on raw materials, goods, or other
6 personal property to alter the raw materials, goods, or other personal
7 property into a new or changed state or form. The operation may be
8 performed by hand, machinery, or a chemical process directed or
9 controlled by an individual. The terms include a person that:
10 (1) dries or prepares grain for storage or delivery; or
11 (2) publishes books or other printed materials.
12 (b) Personal property owned by a manufacturer or processor is
13 exempt from property taxation if the owner is able to show by adequate
14 records that the property:
15 (1) is stored and remains in its original package in an in-state
16 warehouse for the purpose of shipment, without further
17 processing, to an out-of-state destination; **or**

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(2) is inventory (as defined in IC 6-1.1-3-11) that will be used in an operation or a continuous series of operations to alter the personal property into a new or changed state or form and the resulting personal property will be shipped; or will be incorporated into personal property that will be shipped; to an out-of-state destination; or

~~(3)~~ (2) consists of books or other printed materials that are stored at an in-state commercial printer's facility for the purpose of shipment, without further processing, to an out-of-state destination.

(c) Personal property that is manufactured in Indiana and that would be exempt under subsection (b)(1), except that it is not stored in its original package, is exempt from property taxation if the owner can establish in accordance with exempt inventory procedures, regulations, and rules of the department of local government finance that:

(1) the property is ready for shipment without additional manufacturing or processing, except for packaging; and

(2) either:

(A) the property will be damaged or have its value impaired if it is stored in its original package; or

(B) the final packaging of finished inventory items is not practical until receipt of a final customer order because fulfillment of the customer order requires the accumulation of a number of distinct finished inventory items into a single shipping package.

(d) A manufacturer or processor that possesses personal property owned by another person may claim an exemption under subsection (b) or (c) if:

(1) the manufacturer or processor includes the property on the manufacturer's or processor's personal property tax return; and

(2) the manufacturer or processor is able to show that the owner of the personal property would otherwise have qualified for an exemption under subsection ~~(b)(1); (b)(3);~~ (b) or (c).

SECTION 2. IC 6-1.1-10-29.5, AS AMENDED BY P.L.192-2002(ss), SECTION 31, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: Sec. 29.5. (a) For purposes of ~~determining under~~ sections 29, 29.3, 30(a), and 30(c) of this chapter, ~~the amount and type of personal property that is shipped or transshipped to an out-of-state destination;~~ the term "adequate record" includes a designation on a bill of lading, freight bill, delivery receipt, manifest, packing slip, or an equivalent document, or a final entry in the records of the taxpayer indicating that property is held for

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shipment to an out-of-state destination. Such a designation for out-of-state shipment is sufficient for purposes of section 29, 29.3, 30(a), or 30(c) of this chapter even though the specific out-of-state destination of the property is not included in the designation and even though the destination of the property is unknown on the assessment date.

(b) For the purpose of substantiating the amount of ~~his the~~ **taxpayer's** personal property which is exempt from property taxation under section 29, 29.3, 30(a), or 30(c) of this chapter on the basis that it is being shipped or transshipped to an out-of-state destination, a taxpayer shall maintain records that reflect the specific type and amount of personal property claimed to be exempt so that the taxpayer's taxable personal property may be distinguished from ~~his the~~ **taxpayer's** exempt personal property. In lieu of specific identification of the taxpayer's personal property that is shipped or transshipped to an out-of-state destination, the taxpayer may elect to establish the value of ~~his the taxpayer's~~ exempt personal property by utilizing an allocation method whereby the exempt personal property is determined by dividing:

(1) the value of the taxpayer's property shipped from the in-state warehouse to out-of-state destinations during the twelve (12) month period ending with the assessment date; by

(2) the total value of all shipments of the taxpayer's property from the in-state warehouse during the same period of time;

and applying this ratio to the taxpayer's total inventory of personal property that has been placed in the in-state warehouse, that is in the in-state warehouse as of the assessment date, and that meets the other requirements for an exemption under section 29, 29.3, 30(a), or 30(c) of this chapter. If the taxpayer uses the allocation method, ~~he the~~ **taxpayer** shall keep records which adequately establish the validity of the allocation.

(c) If the taxpayer elects to keep a specific inventory under subsection (b), ~~he the taxpayer~~ shall maintain additional records which reflect:

(1) an accurate inventory of all personal property stored in an in-state warehouse; i.e., both inventory destined for points outside ~~the state Indiana~~ and inventory destined for points within ~~the state; Indiana;~~

(2) the date of deposit of the inventory in the in-state warehouse;

(3) the date of withdrawal of the inventory from the in-state warehouse; and

(4) the point of ultimate destination of the shipments, if known.

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(d) For the purposes of this section, the term "warehouse" includes a commercial printer's facility.

(e) A taxpayer may use an allocation percentage to claim an exemption under section 29(b)(2) of this chapter for a part of the person's personal property if the taxpayer's business records substantiate that the allocation percentage accurately reflects the part of the personal property that will:

(1) be used in an operation or a continuous series of operations to alter the personal property into a new or changed state or form; and

(2) in its new or changed state or form be:

(A) shipped; or

(B) incorporated into personal property that will be shipped; to an out-of-state destination.

The percentage may include personal property that is sold to another processor or manufacturer if the personal property is incorporated into the personal property of the buyer and that personal property is shipped out of state.

SECTION 3. IC 6-1.1-12-42, AS ADDED BY P.L.192-2002(ss), SECTION 34, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: Sec. 42. (a) As used in this section, "assessed value of inventory" means the assessed value determined after the application of any deductions or adjustments that apply by statute or rule to the assessment of inventory, other than the deduction established in subsection ~~(c)~~: **(d)**.

(b) As used in this section, "inventory" ~~has the meaning set forth means inventory (as defined in IC 6-1.1-3-11) other than qualified interstate inventory.~~

(c) As used in this section, "qualified interstate inventory" means inventory (as defined in IC 6-1.1-3-11) that will be used in an operation or a continuous series of operations to alter personal property into a new or changed state or form and the resulting personal property will be shipped, or will be incorporated into personal property that will be shipped, to an out-of-state destination.

~~(c)~~ **(d)** A taxpayer is entitled to a deduction from assessed value equal to one hundred percent (100%) of the taxpayer's assessed value of inventory beginning with assessments made in 2006 for property taxes first due and payable in 2007.

~~(d)~~ **(e)** A taxpayer is not required to file an application to qualify for the deduction established by this section.

~~(e)~~ **(f)** The department of local government finance shall incorporate

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the deduction established by this section in the personal property return form to be used each year for filing under IC 6-1.1-3-7 or IC 6-1.1-3-7.5 to permit the taxpayer to enter the deduction on the form. If a taxpayer fails to enter the deduction on the form, the township assessor shall:

- (1) determine the amount of the deduction; and
- (2) within the period established in IC 6-1.1-16-1, issue a notice of assessment to the taxpayer that reflects the application of the deduction to the inventory assessment.

(f) (g) The deduction established by this section must be applied to any inventory assessment made by:

- (1) an assessing official;
- (2) a county property tax assessment board of appeals; or
- (3) the department of local government finance.

SECTION 4. IC 6-1.1-21-2, AS AMENDED BY P.L.1-2004, SECTION 33, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: Sec. 2. As used in this chapter:

(a) "Taxpayer" means a person who is liable for taxes on property assessed under this article.

(b) "Taxes" means property taxes payable in respect to property assessed under this article. The term does not include special assessments, penalties, or interest, but does include any special charges which a county treasurer combines with all other taxes in the preparation and delivery of the tax statements required under IC 6-1.1-22-8(a).

(c) "Department" means the department of state revenue.

(d) "Auditor's abstract" means the annual report prepared by each county auditor which under IC 6-1.1-22-5, is to be filed on or before March 1 of each year with the auditor of state.

(e) "Mobile home assessments" means the assessments of mobile homes made under IC 6-1.1-7.

(f) "Postabstract adjustments" means adjustments in taxes made subsequent to the filing of an auditor's abstract which change assessments therein or add assessments of omitted property affecting taxes for such assessment year.

(g) "Total county tax levy" means the sum of:

- (1) the remainder of:
 - (A) the aggregate levy of all taxes for all taxing units in a county which are to be paid in the county for a stated assessment year as reflected by the auditor's abstract for the assessment year, adjusted, however, for any postabstract adjustments which change the amount of the aggregate levy;

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1 minus

2 (B) the sum of any increases in property tax levies of taxing
3 units of the county that result from appeals described in:

4 (i) IC 6-1.1-18.5-13(4) and IC 6-1.1-18.5-13(5) filed after
5 December 31, 1982; plus

6 (ii) the sum of any increases in property tax levies of taxing
7 units of the county that result from any other appeals
8 described in IC 6-1.1-18.5-13 filed after December 31,
9 1983; plus

10 (iii) IC 6-1.1-18.6-3 (children in need of services and
11 delinquent children who are wards of the county); minus

12 (C) the total amount of property taxes imposed for the stated
13 assessment year by the taxing units of the county under the
14 authority of IC 12-1-11.5 (repealed), IC 12-2-4.5 (repealed),
15 IC 12-19-5, or IC 12-20-24; minus

16 (D) the total amount of property taxes to be paid during the
17 stated assessment year that will be used to pay for interest or
18 principal due on debt that:

19 (i) is entered into after December 31, 1983;

20 (ii) is not debt that is issued under IC 5-1-5 to refund debt
21 incurred before January 1, 1984; and

22 (iii) does not constitute debt entered into for the purpose of
23 building, repairing, or altering school buildings for which
24 the requirements of IC 20-5-52 were satisfied prior to
25 January 1, 1984; minus

26 (E) the amount of property taxes imposed in the county for the
27 stated assessment year under the authority of IC 21-2-6
28 (repealed) or any citation listed in IC 6-1.1-18.5-9.8 for a
29 cumulative building fund whose property tax rate was initially
30 established or reestablished for a stated assessment year that
31 succeeds the 1983 stated assessment year; minus

32 (F) the remainder of:

33 (i) the total property taxes imposed in the county for the
34 stated assessment year under authority of IC 21-2-6
35 (repealed) or any citation listed in IC 6-1.1-18.5-9.8 for a
36 cumulative building fund whose property tax rate was not
37 initially established or reestablished for a stated assessment
38 year that succeeds the 1983 stated assessment year; minus

39 (ii) the total property taxes imposed in the county for the
40 1984 stated assessment year under the authority of IC 21-2-6
41 (repealed) or any citation listed in IC 6-1.1-18.5-9.8 for a
42 cumulative building fund whose property tax rate was not

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initially established or reestablished for a stated assessment year that succeeds the 1983 stated assessment year; minus (G) the amount of property taxes imposed in the county for the stated assessment year under:

- (i) IC 21-2-15 for a capital projects fund; plus
- (ii) IC 6-1.1-19-10 for a racial balance fund; plus
- (iii) IC 20-14-13 for a library capital projects fund; plus
- (iv) IC 20-5-17.5-3 for an art association fund; plus
- (v) IC 21-2-17 for a special education preschool fund; plus
- (vi) IC 21-2-11.6 for a referendum tax levy fund; plus
- (vii) an appeal filed under IC 6-1.1-19-5.1 for an increase in a school corporation's maximum permissible general fund levy for certain transfer tuition costs; plus
- (viii) an appeal filed under IC 6-1.1-19-5.4 for an increase in a school corporation's maximum permissible general fund levy for transportation operating costs; minus

(H) the amount of property taxes imposed by a school corporation that is attributable to the passage, after 1983, of a referendum for an excessive tax levy under IC 6-1.1-19, including any increases in these property taxes that are attributable to the adjustment set forth in IC 6-1.1-19-1.5 or any other law; minus

(I) for each township in the county, the lesser of:

- (i) the sum of the amount determined in IC 6-1.1-18.5-19(a) STEP THREE or IC 6-1.1-18.5-19(b) STEP THREE, whichever is applicable, plus the part, if any, of the township's ad valorem property tax levy for calendar year 1989 that represents increases in that levy that resulted from an appeal described in IC 6-1.1-18.5-13(4) filed after December 31, 1982; or
- (ii) the amount of property taxes imposed in the township for the stated assessment year under the authority of IC 36-8-13-4; minus

(J) for each participating unit in a fire protection territory established under IC 36-8-19-1, the amount of property taxes levied by each participating unit under IC 36-8-19-8 and IC 36-8-19-8.5 less the maximum levy limit for each of the participating units that would have otherwise been available for fire protection services under IC 6-1.1-18.5-3 and IC 6-1.1-18.5-19 for that same year; minus

(K) for each county, the sum of:

- (i) the amount of property taxes imposed in the county for

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the repayment of loans under IC 12-19-5-6 (repealed) that is included in the amount determined under IC 12-19-7-4(a) STEP SEVEN for property taxes payable in 1995, or for property taxes payable in each year after 1995, the amount determined under IC 12-19-7-4(b); and

(ii) the amount of property taxes imposed in the county attributable to appeals granted under IC 6-1.1-18.6-3 that is included in the amount determined under IC 12-19-7-4(a) STEP SEVEN for property taxes payable in 1995, or the amount determined under IC 12-19-7-4(b) for property taxes payable in each year after 1995; plus

(2) all taxes to be paid in the county in respect to mobile home assessments currently assessed for the year in which the taxes stated in the abstract are to be paid; plus

(3) the amounts, if any, of county adjusted gross income taxes that were applied by the taxing units in the county as property tax replacement credits to reduce the individual levies of the taxing units for the assessment year, as provided in IC 6-3.5-1.1; plus

(4) the amounts, if any, by which the maximum permissible ad valorem property tax levies of the taxing units of the county were reduced under IC 6-1.1-18.5-3(b) STEP EIGHT for the stated assessment year; plus

(5) the difference between:

(A) the amount determined in IC 6-1.1-18.5-3(e) STEP FOUR; minus

(B) the amount the civil taxing units' levies were increased because of the reduction in the civil taxing units' base year certified shares under IC 6-1.1-18.5-3(e).

(h) "December settlement sheet" means the certificate of settlement filed by the county auditor with the auditor of state, as required under IC 6-1.1-27-3.

(i) "Tax duplicate" means the roll of property taxes which each county auditor is required to prepare on or before March 1 of each year under IC 6-1.1-22-3.

(j) "Eligible property tax replacement amount" is equal to the sum of the following:

(1) Sixty percent (60%) of the total county tax levy imposed by each school corporation in a county for its general fund for a stated assessment year.

(2) Twenty percent (20%) of the total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) imposed in a

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county on real property for a stated assessment year.

(3) Twenty percent (20%) of the total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) imposed in a county on tangible personal property, excluding business personal property, for an assessment year.

(4) One hundred percent (100%) of the total county levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) imposed in a county on qualified interstate inventory for property taxes first due and payable in 2004.

(k) "Business personal property" means tangible personal property (other than real property) that is being:

- (1) held for sale in the ordinary course of a trade or business; or
- (2) held, used, or consumed in connection with the production of income.

(l) "Taxpayer's property tax replacement credit amount" means the sum of the following:

(1) Sixty percent (60%) of a taxpayer's tax liability in a calendar year for taxes imposed by a school corporation for its general fund for a stated assessment year.

(2) Twenty percent (20%) of a taxpayer's tax liability for a stated assessment year for a total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) on real property.

(3) Twenty percent (20%) of a taxpayer's tax liability for a stated assessment year for a total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) on tangible personal property other than business personal property.

(4) The percentage determined under section 13 of this chapter of a taxpayer's tax liability for a stated assessment year for a total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) imposed in a county on qualified interstate inventory.

(m) "Tax liability" means tax liability as described in section 5 of this chapter.

(n) "General school operating levy" means the ad valorem property tax levy of a school corporation in a county for the school corporation's general fund.

(o) "Qualified interstate inventory" means inventory (as defined

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1 **in IC 6-1.1-3-11) that will be used in an operation or a continuous**
 2 **series of operations to alter personal property into a new or**
 3 **changed state or form and the resulting personal property will be**
 4 **shipped, or will be incorporated into personal property that will be**
 5 **shipped, to an out-of-state destination.**

6 SECTION 5 . IC 6-1.1-21-5, AS AMENDED BY P.L.1-2004,
 7 SECTION 34, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
 8 UPON PASSAGE]: Sec. 5. (a) Each year the taxpayers of each county
 9 shall receive a credit for property tax replacement in the amount of
 10 each taxpayer's property tax replacement credit amount for taxes
 11 which:

12 (1) under IC 6-1.1-22-9 are due and payable in May and
 13 November of that year; or

14 (2) under IC 6-1.1-22-9.5 are due in installments established by
 15 the department of local government finance for that year.

16 The credit shall be applied to each installment of taxes. The dollar
 17 amount of the credit for each taxpayer shall be determined by the
 18 county auditor, based on data furnished by the department of local
 19 government finance.

20 (b) The tax liability of a taxpayer for the purpose of computing the
 21 credit for a particular year shall be based upon the taxpayer's tax
 22 liability as is evidenced by the tax duplicate for the taxes payable in
 23 that year, plus the amount by which the tax payable by the taxpayer had
 24 been reduced due to the application of county adjusted gross income
 25 tax revenues to the extent the county adjusted gross income tax
 26 revenues were included in the determination of the total county tax levy
 27 for that year, as provided in sections 2(g) and 3 of this chapter,
 28 adjusted, however, for any change in assessed valuation which may
 29 have been made pursuant to a post-abstract adjustment if the change is
 30 set forth on the tax statement or on a corrected tax statement stating the
 31 taxpayer's tax liability, as prepared by the county treasurer in
 32 accordance with IC 6-1.1-22-8(a). However, except when using the
 33 term under section 2(l)(1) of this chapter, the tax liability of a taxpayer
 34 does not include the amount of any property tax owed by the taxpayer
 35 that is attributable to that part of any property tax levy subtracted under
 36 section 2(g)(1)(B), 2(g)(1)(C), 2(g)(1)(D), 2(g)(1)(E), 2(g)(1)(F),
 37 2(g)(1)(G), 2(g)(1)(H), 2(g)(1)(I), 2(g)(1)(J), or 2(g)(1)(K) of this
 38 chapter in computing the total county tax levy.

39 (c) The credit for taxes payable in a particular year with respect to
 40 mobile homes which are assessed under IC 6-1.1-7 is equivalent to the
 41 taxpayer's property tax replacement credit amount for the taxes payable
 42 with respect to the assessments plus the adjustments stated in this

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section.

(d) Each taxpayer in a taxing district that contains all or part of an economic development district that meets the requirements of section 5.5 of this chapter is entitled to an additional credit for property tax replacement. This credit is equal to the product of:

(1) the STEP TWO quotient determined under section 4(a)(3) of this chapter for the taxing district; multiplied by

(2) the taxpayer's taxes levied in the taxing district that are allocated to a special fund under IC 6-1.1-39-5.

(e) A taxpayer may use an allocation percentage to identify the taxpayer's qualified interstate inventory used under section 2(l)(4) of this chapter to determine the taxpayer's property tax replacement credit amount if the taxpayer's business records substantiate that the allocation percentage accurately reflects the part of the taxpayer's personal property that is qualified interstate inventory. The percentage may include personal property that is sold to another processor or manufacturer if the personal property is incorporated into the personal property of the buyer and that personal property is shipped out of state.

SECTION 6. IC 6-1.1-21-13 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: **Sec. 13. The percentage determined in the last of the following STEPS must be used under section 2(l)(4) of this chapter to determine a taxpayer's property tax replacement credit amount:**

STEP ONE: Determine the amount of the total county levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county levy) imposed in the taxpayer's county on qualified interstate inventory for a stated assessment year.

STEP TWO: Divide the amount of the total county levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county levy) imposed in the taxpayer's county on qualified interstate inventory for property tax first due and payable in 2004 by the STEP ONE amount.

STEP THREE: Round the STEP TWO result to the nearest one-hundredth (.01).

STEP FOUR: Determine the lesser of the STEP THREE result or one (1).

STEP FIVE: Express the amount determined under STEP FOUR as a percentage.

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1 SECTION 7. [EFFECTIVE UPON PASSAGE] (a) IC 6-1.1-10-29,
2 IC 6-1.1-10-29.5, IC 6-1.1-21-2, and IC 6-1.1-21-5, all as amended
3 by this act, apply to property taxes first due and payable after
4 December 31, 2004.

5 (b) IC 6-1.1-21-13, as added by this act, applies to property taxes
6 first due and payable after December 31, 2004.

7 (c) IC 6-1.1-12-42, as amended by this act, applies to property
8 taxes first due and payable after December 31, 2006.

9 SECTION 8. An emergency is declared for this act.

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